Annexure A: Financial Plan

- Introduction
- Financial Framework
- Financial Strategies
- Financial Policies
- Budget Assumptions
- Operating Revenue
- Operating Expenditure
- Capital Expenditure
- Capital Expenditure Funding
- Conclusion

1.1 Introduction

The purpose of this chapter is to outline a comprehensive multi-year financial plan that will ensure long-term financial sustainability for //Khara Hais. The financial plan is essential to ensure that the municipality continues to implement its mandate effectively without impairing its capital base and to move towards self-sufficiency in meeting the growing demands of service delivery.

The multi-year financial plan is prepared for a planning period of five years, paying particular attention to infrastructure investment which is an important developmental component of the IDP. Through this plan //Khara Hais will focus on greater financial health and sustainability making collaboration of capital investment projects with other levels of government and private sector investors much easier. It is of utmost importance that //Khara Hais stimulates the macro-economic environment to attract the private sector to invest in //Khara Hais. Through this approach //Khara Hais will enhance its ability to have access to much needed financial resources to invest in new as well as to maintain its current infrastructure assets.

This plan will also focus on the expansion of //Khara Hais' revenue sources in relation to its costs to ensure that the municipality stays a financial viable and sustainable going concern. //Khara Hais must utilise available financial resources in an effective, efficient and economical way to ensure that outputs have the desired outcomes. The financial strategies detailed in this plan must contribute to the achievement of these objectives.

It is important to note that this multi-year financial plan will cover key focus areas over the next five years. However, due to the fact that budgets in terms of National Treasury's Municipal Budget and Reporting Regulations only covers a planning period of the next financial year and the two outer financial years thereafter; budget information supplied in this chapter might only cover the next three financial years. It will also cover the current financial year's information as well as the previous three financial years' audited information.

A discussion will now follow on key focus areas consisting of a financial framework, financial strategies, financial policies, budget assumptions, operating revenue, operating expenditure, capital expenditure, capital expenditure funding and a concluding statement.

1.2 Financial Framework

It must be noted that not all municipalities are the same and this should be kept in mind when assessing the financial health of and the setting of benchmarks for a municipality. A municipality can be categorised into a developed or a developing municipality. //Khara Hais can be categorised as a developing or growing municipality simply because Upington is the economic hub of the ZF Mgcawu District.

Developing municipalities will require significant additional resources and funding to conduct the growth that is expected of them. With the demands for growth come risks that need to be managed. The priority from the financial perspective is the viability and sustainability of the municipality. This financial plan and related strategies will need to address a number of key areas in order to achieve this goal. The areas which have been identified are detailed below.

1.2.1 Revenue adequacy and certainty

It is essential that //Khara Hais has access to adequate sources of revenue from its own operations and intergovernmental transfers to enable it to carry out its functions. It is furthermore necessary that there is a reasonable degree of certainty with regard to the source, amount and timing of revenue. The latest DoRA has laid out the level of funding from National Government that will be received for the 2015/2016 to 2017/2018 financial years.

It is important to track the respective sources of revenue received by the municipality as they can be quite different and can vary substantially depending upon the phase that the municipality is in. Knowledge of the sources of funds will illustrate the municipality's position more accurately, its ability to secure loans relative to its income and its borrowing capacity.

1.2.2 Cash / liquidity position

Cash and cash management is vital for the short- and long-term survival and good management of any organisation. This is also the case with //Khara Hais. The appropriate benchmarks which can assist in assessing the financial health of the municipality are:

(a) The **current ratio**, which expresses the current assets as a proportion to current liabilities. A current ratio in excess of two to one (2:1) is considered to be healthy. //Khara Hais as at 30 June 2012 stood at a ratio of 0.51:1; as at 30 June 2013 at a ratio of 0.56:1; and at 30 June 2014 at a ratio of 0.38:1. These results are seen as highly undesirable in the medium to short term and must be turned around. The operating budget needs to produce yearly operating surpluses to improve our cash back reserves position and all collectable revenue needs to be collected.

(b) **Debtor's turnover ratio**, which have a great impact on the liquidity of the Municipality. The municipality as at 30 June 2012 took on average 50 days to recover its outstanding debts, with provision for bad debt. It slightly increased to 63 days as at 30 June 2013 and then decreased to 51 days as at 30 June 2014. The municipality as at 30 June 2012 took on average 56 days to recover its outstanding debts, without provision for bad debt. It increased to 77days as at 30 June 2013 and then increased to 60 days as at 30 June 2014. //Khara Hais will attempt to reduce the debtor's turnover ratio (without provisions for bad debt) to less than 55 days, 50 days and 45 days in the short-, medium- and long-term respectively.

(c) The **collection rate** for the 2011/2012 and 2012/2013 financial years were 98.6% and 97.2% respectively. The collection rate for 2013/2014 was 102.4%. The collection rate would have been even higher if government departments honoured their commitments. The collection rate for the 1st ten months of the 2014/2015 financial year was 100.5%. The revenue received includes indigent household subsidy payments and irrecoverable debt of indigent households written-off. The Municipal Council, during the 2008/2009 financial year, accepted and approved a Writing-Off of Irrecoverable Debt Policy with writing-off incentives to debtors who pays outstanding debt as an attempt to get households and other consumers out of their spiral debt. All debt older than 90 days have been provided for and the writing-off of irrecoverable debt of all indigent households will reduce the **debtor's turnover ratio** significantly over the short-term.

(d) However, the Municipal Council do not simply want to write-off outstanding debt if they can recover outstanding debt over the short-, medium- and long-term. Council lifted the moratorium on the hand over of outstanding debtors to debt collectors during the 2013/2014 financial year and

we are in the process of finalising the second batch of hand overs. The non-collection portion will be provided for in the operating budget as a debt impairment expense.

1.2.3 Sustainability

//Khara Hais needs to ensure that its budget is balanced and cash-funded (realistically anticipated revenue to be received / collected that covers expenditure). As there are limits on revenue, it is necessary to ensure that services are provided at levels that are affordable; and, that the full costs of service delivery are recovered. However, to ensure that households which are too poor to pay for even a portion of their basic services at least have access to these basic services; there is a need for the subsidisation of these households through an indigent support subsidy.

1.2.1 Effective and efficient use of resources

In an environment of limited resources, it is essential that the municipality make maximum use of the resources at its disposal by using them in an effective and efficient manner. Efficiency in operations and investment will increase poor people's access to basic services. It is therefore imperative for the operating budget to be compiled on the zero base budget approach to eliminate any fat usually built in a budget with an incremental approach.

1.2.2 Accountability, transparency and good governance

The municipality is accountable to the people who provide the resources, for what they do with these resources. The budgeting process and other financial decisions should be open to public scrutiny and participation. In addition, the accounting and financial reporting procedures must minimise opportunities for corruption. It is also essential that accurate financial information is produced within acceptable time-frames.

1.2.3 Equity and redistribution

The municipality must treat people fairly and justly when it comes to the provision of services. In the same way the municipality should be treated equitably by national and provincial government when it comes to inter-governmental transfers. The "equitable share" from national government will be used primarily for targeted subsidies to poorer households. In addition, the municipality will continue to cross-subsidise between high- and low-income consumers within a specific service or between services. Unfunded mandates remain a financial burden to //Khara Hais' customer base due to national and provincial transfers not following the functions that //Khara Hais perform on behalf of government.

1.2.4 Development and investment

In order to deal effectively with backlogs in services, there is a need for the municipality to maximise its investment in municipal infrastructure. Due to our financial constraints the underlying policies should encourage the maximum degree of private sector investment.

1.2.5 Macro-economic investment

As the municipality plays a significant role in the ZF Mgcawu area, it is essential that it operates efficiently within the national and provincial macro-economic framework. //Khara Hais' financial and developmental activities should therefore support national and provincial fiscal policy.

1.2.6 Borrowing

The strong capital market in South Africa (commercial banks and other lending institutions like the DBSA, INCA, etc.) provides an additional instrument to access financial resources. However, the municipality may not borrow to balance its operating budget and to finance any operating overspending. Safeguards need to be put in place to ensure that the municipality borrows in a responsible way. In order to have access to this market, the municipality will need to have accurate and appropriate financial accounting and reporting systems. We will have to ensure that we generate enough cash to honour repayment commitments.

The manner in which the municipality manages debt or takes on new debt to finance investment activities will have a significant impact on the solvency and long-term viability of the municipality. //Khara Hais aims at a maximum borrowing level of external loans that will not exceed 40% of the total operating revenue over the short- and medium term. The expected maximum borrowing level of 40% will not be reached during the 2015/16, 2016/17 or 2017/18 financial years based on current figures, because Council are not allowed to take up new loans, as our budget is currently not funded. //Khara Hais will in future be able to borrow for capital investment only for projects that has to do with basic service delivery and the core business of the municipality.

1.3 Financial Strategies

With the above framework as a background, strategies and programmes have been identified and form part of the financial plan to achieve the desired objective and that is the financial viability and sustainability of the municipality.

1.3.1 Revenue raising strategies

The following are some of the more significant programmes that have been identified:

(a) The review and implementation of a customer care, credit control and debt collection policy. This policy and the relevant procedures detail all areas of customer care, credit control and debt collection of amounts billed to customers, including procedures for non-payment, etcetera.

(b) The review and implementation of a uniform tariff policy. This policy will ensure that fair tariffs are charged in a uniform manner throughout the municipal area.

(c) The review and implementation of an indigent policy. This policy defines the qualification criteria for an indigent household and the level of free basic services enjoyed by indigent households.

(d) The review and implementation of a property rates policy. This will ensure that a fair rates policy and an updated valuation roll are applied to the entire municipal area and will aim to ensure that all properties are included in the municipality's records. Furthermore the policy will ensure that valuations are systematically carried out on a regular basis for all properties.

(e) Five Year Strategic Agenda for Local Government – free basic services, billing systems and municipal services debt. This project aims to enhance the delivery of free basic services to poor households, and assist the municipality in developing innovative, reliable and integrated billing systems that would allow for improved delivery of services and an effective and efficient billing system for the debtors/consumers of the municipality.

(f) The review and implementation of an improved payment strategy. This strategy aims at implementing innovative cost effective processes to encourage consumers to pay their accounts in full on time each month, including increasing the methods of payment and implementing on-line pre-payment systems. It will include a revenue protection unit that implement and see to it that credit control actions in terms of Council's policies are enforced vigorously to improve payment percentage levels.

(g) The appointment of Price Waterhouse Coopers to assist the municipality in identifying additional revenue where the consumption of a consumer differs from the services available to the consumer. The program are further extended to identify situations where the consumer is over taxed. At the end of the program a database will be available that will simplify the planning and budget process.

1.3.2 Asset management strategies and programmes

The following are some of the more significant programmes that have been identified:

(a) The implementation of an integrated asset management system. This programme will involve the investigation, identification and implementation of a suitable integrated asset management system. It will also include the capture of all assets onto the system, the maintenance of this system and the production of a complete asset register in terms of GRAP 17 (property, plant and equipment), GRAP 102 (intangible assets) and any other GRAP Accounting Standards requirements.

(b) The review and update of asset and risk insurance procedures and the renewal of the insurance portfolio. This programme will involve the identification of risks in conjunction with insurers and all heads of departments. It will also include the review of the existing insurance portfolio and the renewal of the insurance policy as per renewal terms.

1.3.3 Financial management strategies and programmes

The following are some of the more significant programmes that have been identified:

(a) The on-going review of the computerised financial accounting system.

(b) Integration of all computerised systems and acquisition of hardware and software required. The integration of computerised systems and acquisition of the required hardware and software within the municipality to ensure that information is accurate, relevant and prompt, which in turn will facilitate the smooth running and effective management of the municipality.

(c) Development of a GRAP compliant MTREF budget.

(d) Develop and implement budget and community consultation processes.

(e) Develop and implement a uniform budget reporting framework compliant with National Treasury's Municipal Budget and Reporting Regulations.

(f) Review and update asset, budget and accounting policies and procedures.

(g) Training and development of financial and other staff. The aim of this project will be to constantly ensure that the financial and other staff members receive the training they require to ensure a cost-effective and efficient service to the municipality and its customers.

(h) Enhance budgetary controls and timeliness of financial data. Building the capacity of the Budget and Treasury Office to ensure that financial information for reporting purposes is generated timeously. It will also include the monitoring and reporting on budget variances.

1.3.4 Capital financing strategies and programmes

The following are some of the more significant programmes that have been identified:

(a) The development and implementation of a debt capacity policy. This policy will ensure that any borrowings taken by the municipality will be done in a responsible manner and that the repayment and servicing of such debt will be affordable.

(b) The development and implementation of a policy for accessing finance (including donor finance).

(c) The development of a capital prioritisation model to identify the capital projects to be implemented with scarce available financial resources that will have the biggest impact in improving the quality of life of //Khara Hais' customer base. The model's criteria will have four focus areas, i.e. IDP strategic objectives, services master plan objectives, project dynamics and project consequences. To each of these criteria and elements per criteria

will be allocated weights still to be determined by Council. In the meantime a subjective approach is followed to determine the capital investment programme. It needs to be noted at this stage that national and provincial government programmes and grant funding often influences the capital investment programme of //Khara Hais. This is something that the municipality have little control over.

1.4 Financial Policies

1.4.1 General financial philosophy

The financial philosophy of //Khara Hais is to provide a sound financial base and the resources necessary to sustain a satisfactory level of municipal services for the citizens of //Khara Hais.

It is the goal of the municipality to achieve a strong financial position with the ability to withstand local and regional economic impacts; to adjust efficiently to the community's changing service requirements; to effectively maintain, improve and expand the municipality's infrastructure; to manage the municipality's budget and cash flow to the maximum benefit of the community; to prudently plan, coordinate and implement responsible and sustainable community development and growth; and to provide a high level of fire and other protective services to assure public health and safety.

Based on the financial framework, financial strategies and the general financial philosophy statement, the municipality have to develop financial policies that support the above. //Khara Hais' financial policies shall also address the following fiscal goals:

(a) To keep the municipality in a fiscally sound position in both the long and short term;

(b) To maintain sufficient financial liquidity through regular reviews and adjustments to meet normal operating and contingent obligations;

(c) To apply credit control policies which maximise collection while providing relief to the indigent;

(d) To implement credit control policies that recognise the basic policy of customer care and convenience;

(e) To operate utilities in a responsive and fiscally sound manner;

(f) To maintain and protect existing infrastructure and capital assets;

(g) To provide a framework for the prudent use of debt financing; and,

(h) To direct the municipality's financial resources toward meeting the goals of the municipality's Integrated Development Plan.

1.4.2 Budget related policies

The annual budget is the central financial planning document, directed by the IDP that embodies all revenue and expenditure decisions. It establishes the level of services to be provided by each department. The budget will be subject to monthly control and be reported to Council with recommendations of actions to be taken to achieve the budget goals. The budget will be subject to a mid-term review, which will result in a Revised Budget. These principles are embedded in the **Budget and Management Oversight Policy**.

The **Budget Virement Policy** allows the Municipal Manager and his administration to transfer funds from one vote to another vote within policy directives to improve effective and efficient service delivery.

Adequate maintenance and replacement of the municipality's assets (property, plant and equipment; intangible assets; heritage assets and investment property) will be provided for in the annual budget. It will be informed by Council's **Asset Management Policy**.

The budget shall balance recurring operating expenses to recurring operating revenues. The budget will have revenue plans based on realistically expected revenue to be collected and expenditure figures. Plans will be included to achieve maximum revenue collection percentages. More about this when the revenue raising policies are discussed in paragraph 1.4.4 below.

1.4.3 Capital infrastructure investment policies

The municipality will establish and implement a comprehensive five-year capital investment plan (CIP). This plan will be updated annually and could be extended to even twenty years to ensure that bulk infrastructure services and internal infrastructure services together with the foreseen funding sources are planned in an integrated and coordinated manner. An annual capital investment budget will be developed and adopted by //Khara Hais Municipality as part of the annual budget. The municipality make all capital improvements in accordance with the CIP and IDP.

Un-expensed capital project budgets shall not be carried forward to future fiscal years unless the project expenditure is committed or funded from grant funding and approved external loans. Routine capital needs will be financed from current revenues (Capital Replacement Reserve) as opposed to the issuance of long-term debt. The municipality will maintain all assets at a level adequate to protect the municipality's capital investment and to minimise future maintenance and replacement costs.

1.4.4 Revenue policies

The municipality will estimate annual revenues through a conservative, objective and analytical process based on realistically expected revenue to be collected. The municipality will consider market rates and charges levied by other public and private organisations for similar services in establishing rates, fees and charges. //Khara Hais will set fees and user charges at a level that fully supports the total direct and indirect costs of operations. Tariffs will be set to reflect the developmental and social policies of Council. These principles will be embedded in a **Tariff Policy.**

//Khara Hais will implement and maintain a new valuation system based on market values of all properties within its boundaries as well as periodically review the cost of activities supported by user fees to determine the impact of inflation and other cost increases. Fees will be adjusted where appropriate to reflect these increases. These principles and the raising of property rates are contained in the **Property Rates Policy**.

The municipality will continue to identify and pursue grants and appropriations from province, central government and other agencies that are consistent with the municipality's goals and strategic plan and to eradicate unfunded mandates.

1.4.5 Credit control policies and procedures

//Khara Hais will follow an aggressive policy of collecting revenues from those who can afford to pay for their services. For this purpose an **Indigent and Provision of Free Basic Services Policy** do exist as well as a **Credit Control and Debt Collection Policy**. On 30 June 2013, households owed 37.3% of all outstanding debt and on 30 April 2014, households owed 43.4% of all outstanding debt. Therefore, a **Writing-Off of Irrecoverable Debt Policy** were reviewed to reduce the outstanding debt with the aim to get the households and other consumers out of their spiral debt.

1.4.6 Supply chain management

The **Supply Chain Management Policy** will ensure that goods and services are procured compliant with legislative requirements in a fair, equitable, transparent, competitive and cost effective way. It includes the disposal of goods or assets not needed anymore for basic service delivery and it must be read in conjunction with Council's **Disposal of Assets Policy**.

Contract management will be a focus area in 2015/16 to ensure that contracts awarded to service providers to render services will be managed and monitored appropriately.

1.4.7 Investment policies

In terms of Section 13(2) of the Municipal Finance Management Act each municipality must establish an appropriate and effective cash management and investment policy. Investments of the municipality shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The portfolio shall remain sufficiently liquid to enable the municipality to meet daily cash flow demands and conform to all state and local requirements governing the investment of public funds. The preservation of principal is the foremost objective of the investment program. //Khara Hais will continue the current cash management and investment practices, which are designed to emphasise safety of capital first, sufficient liquidity to meet obligations second, and the highest possible yield third. These principles are embedded in the **Cash and Investment Policy** of Council.

1.4.8 Debt management policies

//Khara Hais shall issue debt only when necessary to meet a public need and when funding for such projects is not available from current revenues, reserves or other sources. Long-term borrowing will be used to finance capital improvements as approved in the municipality's CIP. Capital projects

financed through the issuance of debt shall be financed for a period not to exceed the expected useful life of the project. The municipality will not incur debt to finance current operations. Lease-purchase obligations, capital outlay notes or other debt instruments may be used as a medium-term method of borrowing for the financing of vehicles, computers, other specialised types of equipment, or other capital improvements. All these principles are embedded in the **Borrowing Policy** of Council.

Borrowing should be limited to 40% of the total operating budget rand value. If not, the municipality will become over-borrowed and a risk to banking institutions and this will result in loans over shorter terms and at higher interest rates. This would not be fair to the current customer base.

1.4.9 Asset Management Policies

The objective of the asset management policy is to prescribe the accounting and administrative policies and procedures relating to Property, Plant & Equipment (PPE), which is immoveable and moveable assets of //Khara Hais, and, computer software which are intangible assets of //Khara Hais Municipality. The principles and policy statements are embedded in the **Asset Management Policy** of Council.

1.4.10 Accounting policies

The principals on which //Khara Hais operate with regard to the presentation, treatment and disclosure of financial information forms part of the **Accounting Policy** adopted in the compiled yearly annual financial statements.

1.5 Budget Assumptions

Based on the financial framework, financial strategies and financial policies the MTREF budget was compiled. Key assumptions relating to the MTREF budget also included the following:

(a) National government grants for the years 2015/16 to 2017/18 are as per the Division of Revenue Act (DoRA).

(b) Provincial government grants for the years 2015/16 to 2017/18 are as per promulgated in the Provincial Gazettes.

(c) The headline inflation rate (consumer price index or CPI) was 5.8% for the 2013/14 financial year and is estimated at 5.6% for the 2014/15 financial year. The estimated CPI for the 2015/16 financial year is 4.8% and for the next two indicative financial years at 5.9% (2016/17) and 5.6% (2017/18) respectively (MFMA Circular No 75 dated 09 March 2015).

(d) The salary and wage bill increased with 10.5% in the 2013/2014 financial year. This was due to the filling of vacant posts. This also included a cost-of-living increase of 6.3% during July 2013, and notch increases that varies from 1.5% to 2.5% depending on the post levels. The salary and wage bill increased with 3.4% in the 2014/2015 financial year that includes a cost-of-living increase of 6.79% during July 2014, and notch increases that

varies from 1.5% to 2.5% depending on the post levels. The salary and wage bill for the 2015/2016 financial year increases with 7.37% (cost – of – living increase of 7% included) and with 6.92% for the next two indicative years. The final salary percentage increases per financial year are determined at South African Local Government Bargaining Council level of which the Municipal Council does not have control over.

(e) Bulk electricity purchases increased with 10.05% for the 2013/14 financial year compared with the 9.23% for the 2014/15 financial year. For the 2015/16 financial year an increase of 16.97% has been budgeted for (includes a higher maximum demand fee to be paid due to an increase in electricity consumption by the newly built provincial hospital that came into operation in June 2013) compared with the budgeted and estimated 12.2% for the next two indicative years. Eskom however applied again to NERSA for a further tariff increase of 25.3%. NERSA indicated that they will only make a decision whether it will authorise Eskom's application to hike tariffs by 25.3% on June 29, 2015. The already punch-drunk consumer will be further punched with higher electricity tariffs if NERSA approves Eskom's application.

(f) Bulk water purchases decreased with 54.32% for the 2013/14 financial year compared with the increase of 62.45% for the 2014/15 financial year. For the 2015/16 financial year an increase of 7% has been budgeted for compared with the 7% for the next two indicative years.

(g) Depreciation charges escalated dramatically with 718.8% from the 2008/2009 financial year to the 2009/2010 financial year compared with the 943.1% from the 2008/2009 financial year to the 2010/2011 financial year. This was due to the compiliation of an asset register with fair replacement values compliant with the required GRAP Accounting Standards. For the 2013/2014 financial year actual depreciation costs increased with 8.83% compared with the 17.16% increase budgeted for in the 2014/2015 financial year. For the 2015/16 financial year the budgeted depreciation charges decreases with 2% compared with the -2.0% for the next two indicative years.

(h) Growth in the remaining operational expense items varies from 6% to 10.7% per annum. Contracted services and Finance charges decrease with 12.3% and 12.09% respectively. The total growth in the operational expenses is 7.38%.

(i) Provision has been made for a property rates tariff increase of 7% for the 2015/16 financial year, compared with the ±8% for the 2014/15 financial year and the 7% for the 2013/14 financial year and the 7% for the next two indicative years.

(j) Electricity tariffs for all consumers increase with 12.2% for the 2015/16 financial year. Due to a lack of direction from National Treasury and NERSA an increase of 12.2% is used for the next two financial years. Electricity tariffs for all consumers increased with ±7.39% for the 2014/15 financial year and 7% for the 2013/2014 financial year, compared with the 11.7% and 20.38% for the non indigent consumers for the 2012/2013 and 2011/2012 financial years respectively. Electricity tariffs for indigent household consumers increased with 5.4% for the 2012/2013 financial year and 15.0% for the 2011/2012 financial year.

(k) Water tariffs increase with 7% for the 2015/2016 financial year compared with the 7% for the last two financial years and the 7% for the next two indicative years.

(l) Sanitation tariffs increase with 7% for the 2015/2016 financial year compared with the 7% for the 2013/2014 and 2014/2015 financial years. Provision for an increase of 7% has been made for the next two indicative financial years.

(m) Refuse removal tariffs increase with 9% for the 2015/2016 financial year compared with the 10% for the 2014/2015 financial year and the 9% for the 2013/2014 financial year. Provision for an increase of 9% has been made for the next two indicative financial years.

(n) The budget is based on current service levels and do not make provision for major expansion of services into the rural areas.

1.6 Operating Revenue

In order to serve the community and to render the services needed, revenue generation is fundamental to financial sustainability. The reality is that we are faced with developmental backlogs and poverty challenging our revenue generation capacity. The needs (being capital or operational of nature) always exceed the available financial resources. This becomes more obvious when compiling the annual budget and marrying it with the community's needs as recorded in the IDP. This is a worldwide problem and therefore available financial resources should be utilised where it delivers the biggest impact on outcomes that will improve the quality of life of our local communities.

The operating revenue will now be discussed and analysed.

1.6.1 Operating revenue by source

In Table 1.1 below the operating revenue per revenue source are indicated for the last three audited financial years (green colour), current financial year (yellow colour), 2015/16 financial year (purple colour) and the last two indicative financial years of the MTREF (lime colour). All amounts in Table 1.1 are per rand as well as in Figure 1.2 below.

Table 1.1: Operating Revenue by Source

Description / R	2011/12	2012/13		2013/14		Current Year 2014/15					2015/16 Medium Term Revenue & Expenditure Framework					
	Audited Outcome	Audited Outcome	% Increase / (Decrease)	Audited Outcome	% Increase / (Decrease)	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	% Increase / (Decrease)	Budget Year 2015/16	% Increase / (Decrease)	Budget Year +1 2016/17	% Increase / (Decrease)	Budget Year +2 2017/18	% Increase / (Decrease)
Revenue By Source																
Property rates	41 241 647	48 386 467	17.3%	58 864 646	21.7%	65 415 543	70 551 549	70 551 549	70 551 549	19.9%	75 488 017	7.0%	80 772 178	7.0%	86 426 231	7.0%
Service charges - electricity revenue	159 821 142	178 814 605	11.9%	207 548 106	16.1%	221 832 139	218 455 838	218 455 838	218 455 838	5.3%	247 425 251	13.3%	262 270 765	6.0%	278 007 010	6.0%
Service charges - water revenue	33 972 752	39 026 913	14.9%	44 483 099	14.0%	47 377 813	45 228 261	45 228 261	45 228 261	1.7%	48 709 239	7.7%	52 163 886	7.1%	55 863 058	7.1%
Service charges - sanitation revenue	22 969 348	25 249 023	9.9%	27 781 515	10.0%	28 725 373	28 727 353	28 727 353	28 727 353	3.4%	30 738 642	7.0%	32 891 624	7.0%	35 195 391	7.0%
Service charges - refuse revenue	16 891 590	23 181 313	37.2%	26 273 550	13.3%	26 698 341	26 690 190	26 690 190	26 690 190	1.6%	29 108 452	9.1%	31 730 648	9.0%	34 588 988	9.0%
Rental of facilities and equipment	6 370 646	6 273 458	-1.5%	8 123 689	29.5%	8 004 982	8 791 877	8 791 877	8 791 877	8.2%	9 521 253	8.3%	10 358 143	8.8%	11 271 808	8.8%
Interest earned - external investments	838 912	1 285 531	53.2%	1 164 803	-9.4%	1 230 674	500 000	500 000	500 000	-57.1%	600 000	20.0%	636 000	6.0%	674 160	6.0%
Interest earned - outstanding debtors	2 344 500	1 778 870	-24.1%	1 996 524	12.2%	1 977 704	2 392 573	2 392 573	2 392 573	19.8%	2 400 000	0.3%	2 544 000	6.0%	2 696 640	6.0%
Fines	1 520 877	1 313 020	-13.7%	873 270	-33.5%	1 632 411	403 312	403 312	403 312	-53.8%	430 822	6.8%	456 671	6.0%	484 072	6.0%
Licences and permits	1 732 037	1 681 009	-2.9%	1 642 016	-2.3%	1 668 581	1 606 940	1 606 940	1 606 940	-2.1%	1 612 200	0.3%	1 708 932	6.0%	1 811 469	6.0%
Agency services	3 245 304	3 197 612	-1.5%	3 457 704	8.1%	3 497 000	3 450 000	3 450 000	3 450 000	-0.2%	3 450 000	0.0%	3 657 000	6.0%	3 876 420	6.0%
Transfers recognised - operational	55 209 775	66 749 986	20.9%	69 642 640	4.3%	64 572 070	69 462 539	69 462 539	69 462 539	-0.3%	73 277 956	5.5%	70 958 080	-3.2%	76 854 813	8.3%
Other revenue	10 070 398	17 108 893	69.9%	26 971 921	57.6%	9 338 040	8 278 509	8 278 509	8 278 509	-69.3%	9 648 870	16.6%	10 227 802	6.0%	10 841 470	6.0%
Gains on disposal of PPE	-	1 119 606	100.0%	3 076 238	174.8%	15 200 000	27 010 000	27 010 000	27 010 000	778.0%	20 010 000	-25.9%	21 210 600	6.0%	22 483 236	6.0%
Total Revenue (excluding capital transfers and contributions)	**356 228 926**	**415 166 305**	**16.5%**	**481 899 719**	**16.1%**	**497 170 671**	**511 548 941**	**511 548 941**	**511 548 941**	**6.2%**	**552 420 702**	**8.0%**	**581 586 329**	**5.3%**	**621 074 766**	**6.8%**

1.6.2 Analysis of projected operating revenue

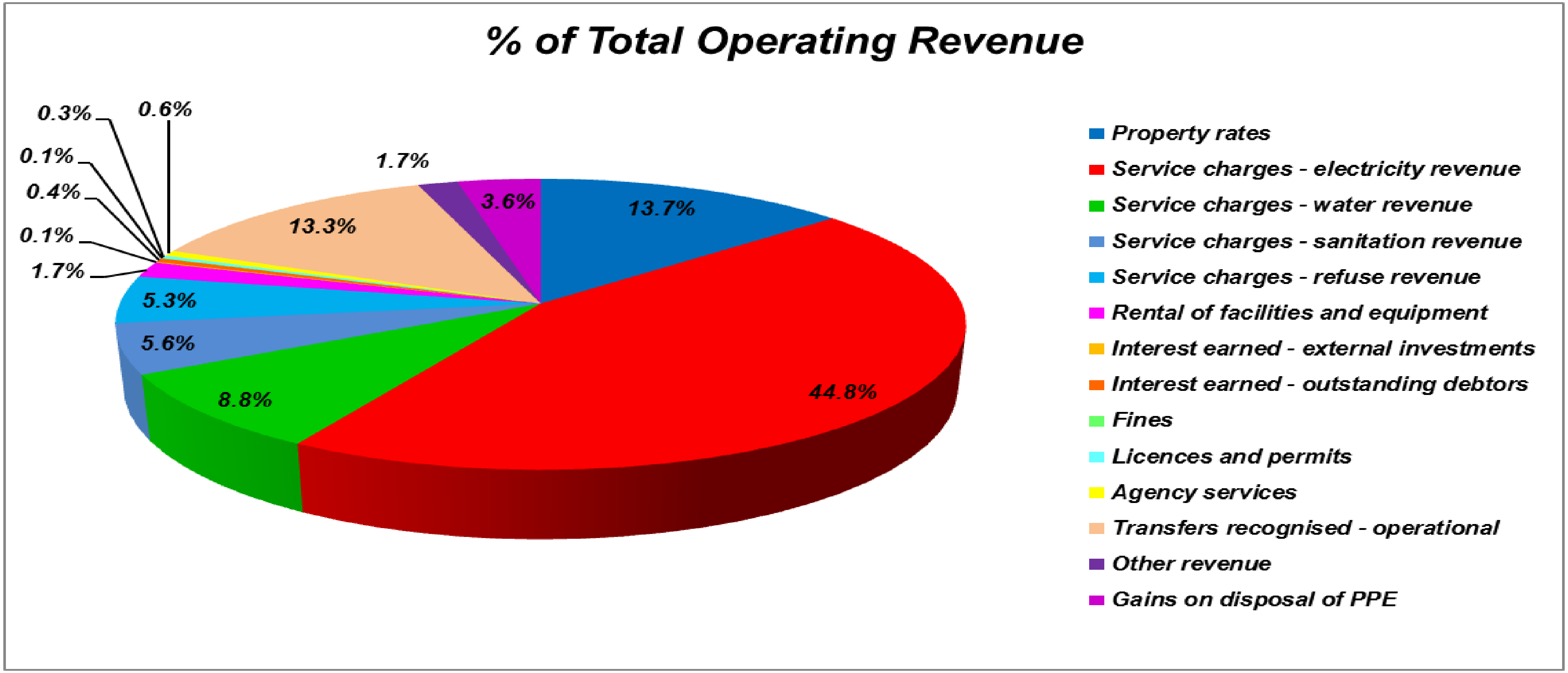
Total operating revenue (capital transfers and contributions excluded) forecasted for the 2015/16 financial year reflects an increase of 8% to an amount of R 552.4 million compared with the projected operating revenue of R 511.5 million for the 2014/15 financial year. The operating revenue forecasts an increase of 5.3% and 6.8% to R 621.07 million in year three.

//Khara Hais' main operating revenue source is their electricity sales of R 247.4 million that represents 44.8% (Figure 1.1 below) of total operating revenue for the 2015/16 financial year. This source of revenue is projecting an income of R 278 million by year three. This trading service produces the much needed profits to subsidise community services to be funded through property rates. Electricity tariffs over the same period increased at a slower

rate than the bulk purchases from Eskom increased. Taking the high salary bill increases also into consideration, the gap between turnover and expenses is closing slowly but surely and is a threat to local government as a whole.
Property rates of R 75.4 million are the second highest operating revenue source and represents 13.7% of total operating revenue. This revenue source increases to R 86.4 million by year three. Care should be taken to not over burden rate payers with this unpopular source of revenue. It is difficult to get rid of a label that a municipality is an over-taxed enterprise and there are lots of examples in history where investors moved to other areas where property tax levied are seen to be reasonable.

The third highest operating revenue source is government grants with an amount of R 73.2 million that represents 13.3% of total operating revenue. The bulk of this grant amount consists of the equitable share for the provision of free basic services to indigent households and the payment of the out of pocket allowances to the ward committee members, to name a few.

Figure 1.1: Operating Revenue Distribution for the 2015/16 Financial Year



Water represents 8.8% or R 48.7 million of total operating revenue followed by sanitation revenue (5.6%) and refuse revenue (5.3%).

Operating revenue trends over the years shown in Table 1.1 are depicted in Figure 1.2 below. The revenue is clustered into five main revenue sources. Electricity revenue (red colour) is clearly the main source of revenue. Water/sanitation/refuse revenue (blue colour) is the second highest cluster of revenue followed by grant revenue (yellow colour). Property rates (green colour) is the fourth highest cluster of revenue from 2011/12 until 2013/14. From 2014/15 property rates revenue is higher than grant revenue and replaces grant revenue as the third highest cluster.

Grant revenue (yellow colour) represented 15.5% of total operating revenue in 2011/12 compared to the 13.3% in 2015/16 and a projected 12.4% in 2017/18. //Khara Hais seems not to be depended on government grants for operational purposes, but it should be noted that maybe the municipality are not receiving sufficient funds from the national fiscus to eradicate the backlog in housing for the poorest of the poor and to render free basic services to indigent households through the equitable share.

Other revenue, i.e. interest earned, rental revenue, fines, licenses, gains on the disposal of property, plant and equipment and other sundry revenue income (pink colour) represents the remaining revenue resources. Even combined in a cluster they contribute the least to //Khara Hais' operating revenue base.

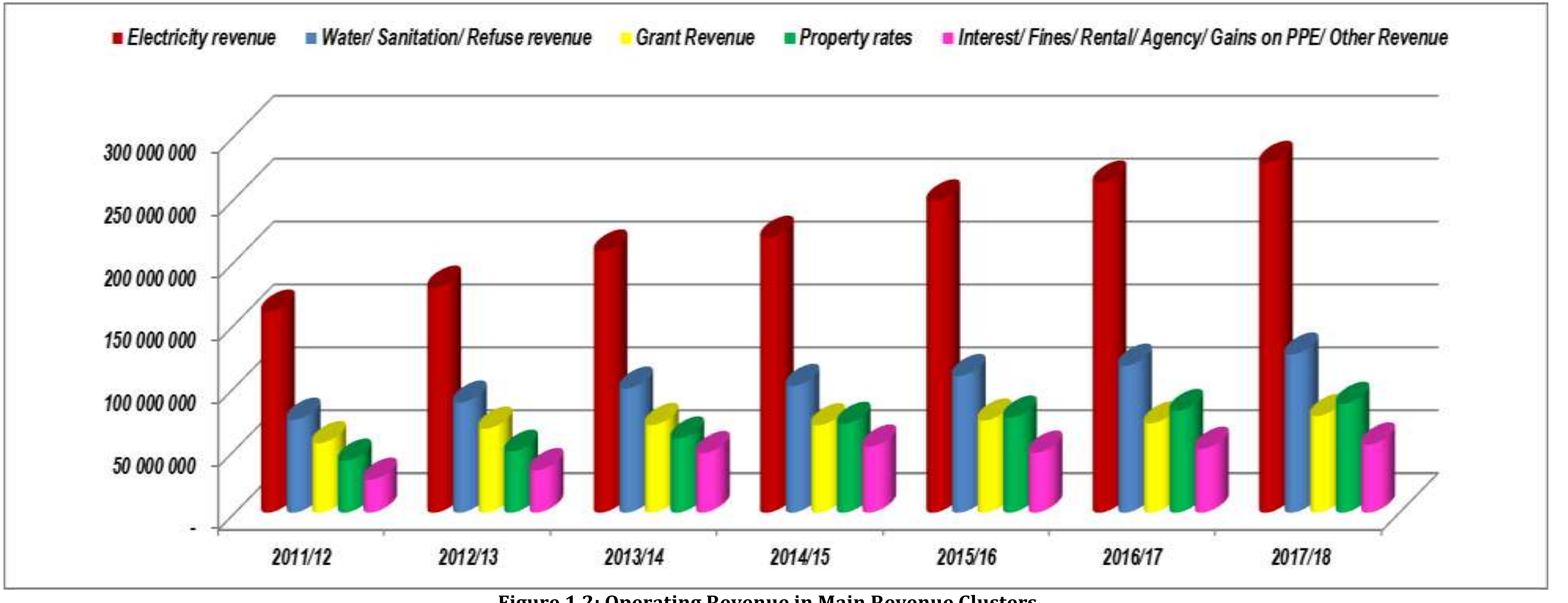


Figure 1.2: Operating Revenue in Main Revenue Clusters

1.7 Operating Expenditure

Operating expenditure budgeting should be done on a zero base budget approach. Further do best practice methodologies relating to operating expenditure include infrastructure repairs and maintenance as a priority; budgeted expenditure to be funded by realistically anticipated cash backed revenues; and, operational gains and efficiencies to result in operating surpluses to fund capital expenditure from own cash backed funds.

1.7.1 Operating expenditure by type

Table 1.2 below depicts the main types of operating expenditure. All amounts in Table 1.2 and Figure 1.4 below are per rand

Table 1.2: Operating Expenditure by Type

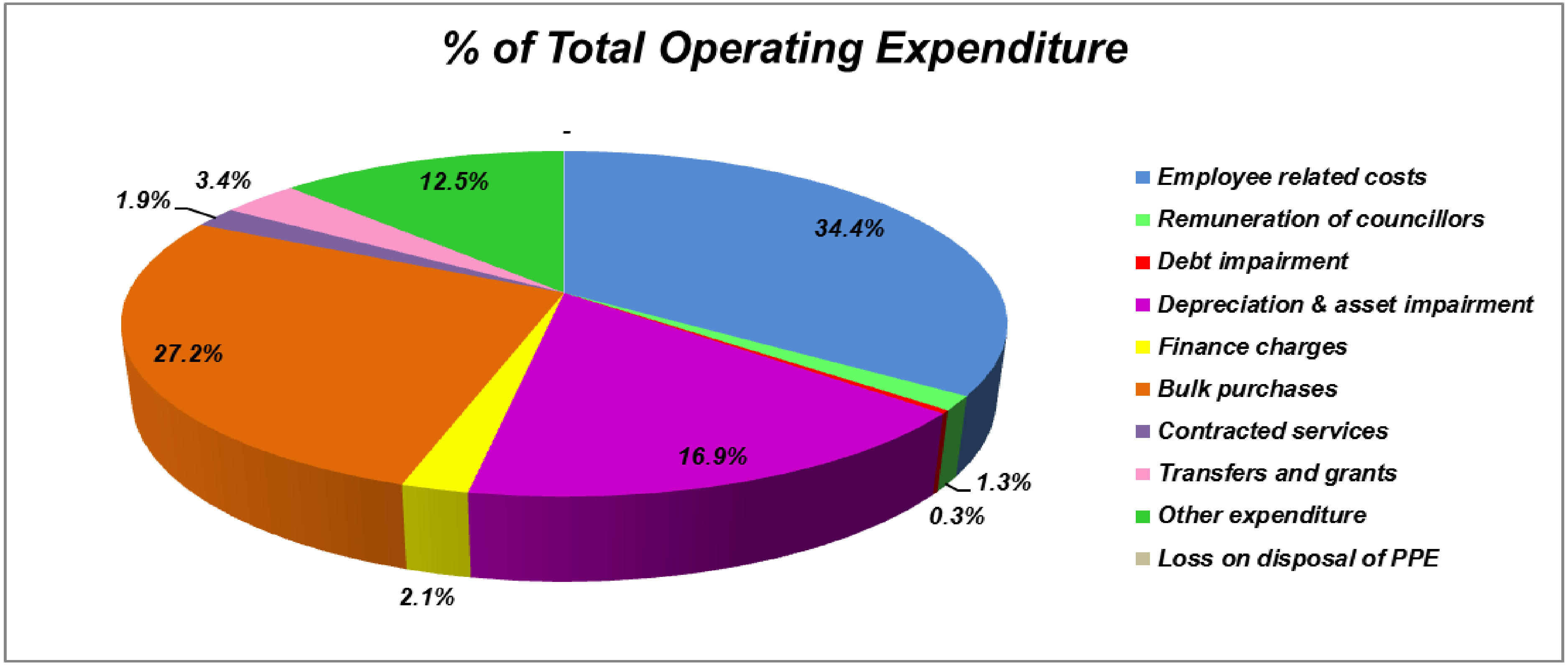
Description / R	2011/12	2012/13		2013/14		Current Year 2014/15					2015/16 Medium Term Revenue & Expenditure Framework					
	Audited Outcome	Audited Outcome	% Increase / (Decrease)	Audited Outcome	% Increase / (Decrease)	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	% Increase / (Decrease)	Budget Year 2015/16	% Increase / (Decrease)	Budget Year +1 2016/17	% Increase / (Decrease)	Budget Year +2 2017/18	% Increase / (Decrease)
Expenditure By Type																
Employee related costs	157 264 181	180 520 798	14.8%	199 439 592	10.5%	211 756 719	206 159 637	206 159 637	206 159 637	3.4%	221 350 838	7.4%	236 670 564	6.9%	253 056 688	6.9%
Remuneration of councillors	6 531 083	6 803 942	4.2%	7 120 448	4.7%	7 981 288	7 981 288	7 981 288	7 981 288	12.1%	8 539 978	7.0%	9 137 777	7.0%	9 777 421	7.0%
Debt impairment	1 729 546	6 401 289	270.1%	240 590	-96.2%	2 000 000	2 000 000	2 000 000	2 000 000	731.3%	2 000 000	0.0%	2 120 000	6.0%	2 247 200	6.0%
Depreciation & asset impairment	79 258 653	86 846 173	9.6%	94 513 205	8.8%	110 733 857	110 733 857	110 733 857	110 733 857	17.2%	108 519 181	-2.0%	106 348 797	-2.0%	104 221 821	-2.0%
Finance charges	9 180 490	14 056 565	53.1%	19 944 458	41.9%	16 658 043	15 284 295	15 284 295	15 284 295	-23.4%	13 435 725	-12.1%	12 070 286	-10.2%	11 413 927	-5.4%
Bulk purchases	106 266 366	122 836 986	15.6%	136 031 708	10.7%	150 166 696	150 166 696	150 166 696	150 166 696	10.4%	175 163 816	16.6%	196 265 283	12.0%	219 922 333	12.1%
Contracted services	10 209 044	15 961 859	56.4%	15 953 849	-0.1%	14 773 304	14 096 578	14 096 578	14 096 578	-11.6%	12 362 847	-12.3%	12 653 577	2.4%	13 687 419	8.2%
Transfers and grants	917 343	25 477 682	2677.3%	27 209 537	6.8%	25 117 000	20 087 000	20 087 000	20 087 000	-26.2%	21 597 000	7.5%	23 106 820	7.0%	24 493 229	6.0%
Other expenditure	96 239 513	61 182 147	-36.4%	61 383 133	0.3%	76 977 325	72 661 477	72 661 477	72 661 477	18.4%	80 432 844	10.7%	82 561 381	2.6%	88 863 169	7.6%
Loss on disposal of PPE	557	-	-100.0%	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Expenditure	**467 596 776**	**520 087 440**	**11.2%**	**561 836 519**	**8.0%**	**616 164 232**	**599 170 828**	**599 170 828**	**599 170 828**	**6.6%**	**643 402 229**	**7.4%**	**680 934 485**	**5.8%**	**727 683 207**	**6.9%**

1.7.2 Analysis of operating expenditure

Total operating expenditure forecasted for the 2015/16 financial year reflects an increase of 7.4% to an amount of R 643.4 million compared with the projected operating expenditure of R 599.1 million for the 2014/15 financial year. The operating expenditure forecasts an increase of 5.8% and 6.9% to R 727.6 million in year three.

//Khara Hais' main operating expenditure type is their employee related costs of R 221.3 million that represents 34.4% (Figure 1.3 below) of total operating expenditure for the 2015/16 financial year. However when deducting non cash items from the total operating expenditure, the employee related costs as a % of the total operating expenditure increases to 41.5%. The national norm for employee related costs is 35%. It therefore means that the municipality's employee related costs is 6.5% or R34 841 771 more than the allowed norm.This expenditure type is projecting an expenditure of R 253 million by year three.

Figure 1.3: Operating Expenditure Distribution for the 2015/16 Financial Year



The second highest operating expenditure type is bulk water and electricity purchases with an amount of R 175.1 million that represents 27.2% of total operating expenditure. This expenditure type increases to R 219.9 million by year three. As mentioned before bulk electricity purchases grow at a higher percentage than the percentage in electricity tariff increases. Care should be taken to not over burden rate payers with this expenditure type.

The third highest operating expenditure type is depreciation and asset impairment with an amount of R108.5 million that represents 16.9% of total operating expenditure. This expenditure type decreases to R104.2 million by year three.

Other expenditure (including repair and maintenance costs) representing R 80.4 million are the fourth highest operating expenditure type and represents 12.5% of total operating expenditure.

Operating expenditure trends over the years shown in Table 1.2 are depicted in Figure 1.4 below. The operating expenditure is clustered into seven main expenditure types. Employee related costs (red colour) are clearly the main expenditure type. Bulk purchases (blue colour) are the second highest cluster of expenditure type followed by depreciation and asset impairment (yellow colour). The high increases well above the inflation rate over these years with regard to bulk electricity purchases from Eskom is skewing the picture and is certainly hurting our economy and that of the region, province and country.

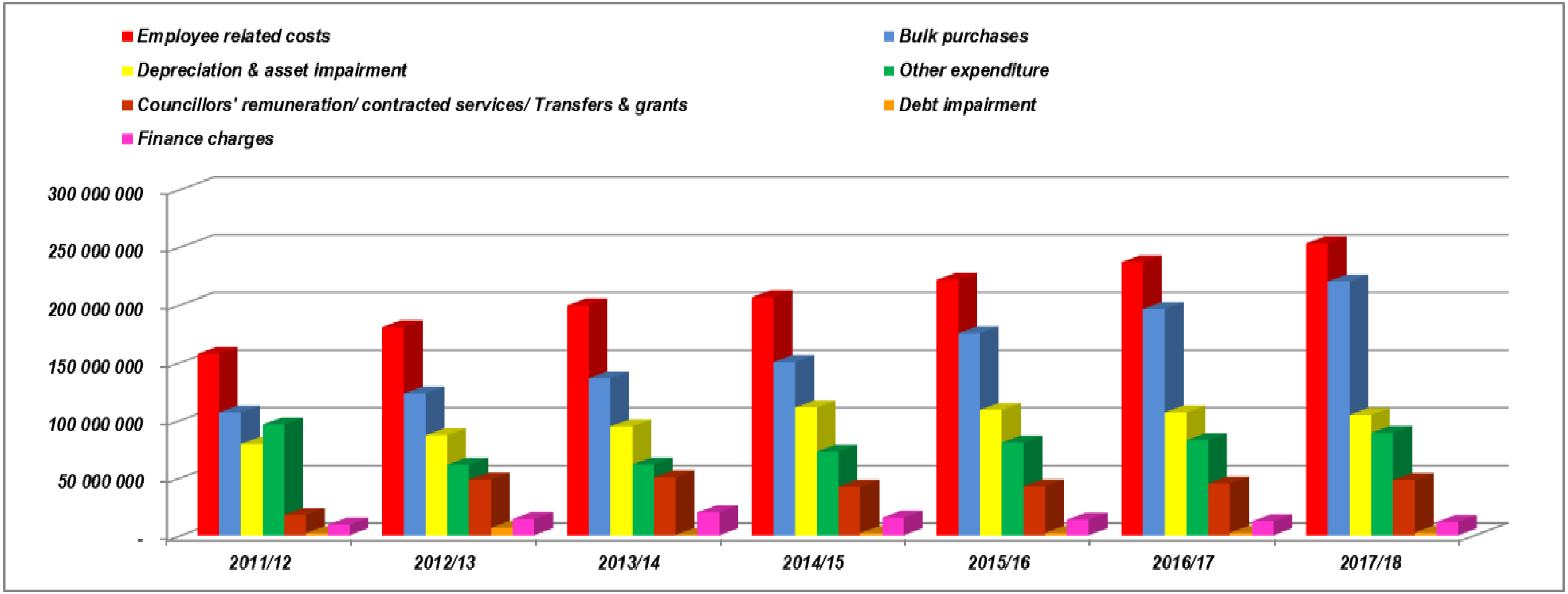


Figure 1.4: Operating Expenditure per Type

The focus will now shift to the discussion of capital expenditure trends.

1.8 Capital Expenditure

Capital expenditure budgeting should be done on a capital prioritising model. Such a model is not operational at this point in time and as mentioned in paragraph 1.3.4(c) above it will be developed for future allocation of scarce available financial sources to capital projects that will have the biggest impact on the outcomes that will improve the quality of life of //Khara Hais' customer base. This model will also ensure that sufficient funds are made available for the renewal of dilapidated infrastructure to ensure on-going quality service delivery.

1.8.1 Capital expenditure by standard classification

Table 1.3 below depicts the main types of capital expenditure as per the GFS standard classification. The five standard classifications are:

(a) Governance and administration comprising of the sub-categories of executive and council; budget and treasury office; and, corporate services;

(b) Community and public safety comprising of the sub-categories of community and social services; sport and recreation; public safety; housing; and, health;

(c) Economic and environmental services comprising of the sub-categories of planning and development; road transport; and, environmental protection;

(d) Trading services comprising of the sub-categories of electricity; water; waste water management; and, waste management; and

(e) Other services.

All amounts in Table 1.3 and Figure 1.6 below are per rand. The percentages in the table reflect the standard classification and its sub-categories allocations as a percentage of the total capital budget. Due to the developmental nature of a capital budget it only makes sense to look at what percentage of the available scarce financial resources are spend in what standard classification of capital expenditure. The focus must be on the investment in infrastructure that will improve the quality of life of //Khara Hais' customer base and that will raise future economic benefits for the municipality.

Table 1.3: Capital Expenditure by Standard Classification

Description/ R	2011/12		2012/13		2013/14		Current Year 2014/15					2015/16 Medium Term Revenue & Expenditure Framework					
	Audited Outcome	% of Total Capex	Audited Outcome	% of Total Capex	Audited Outcome	% of Total Capex	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	% of Total Capex	Budget Year 2015/16	% of Total Capex	Budget Year +1 2016/17	% of Total Capex	Budget Year +2 2017/18	% of Total Capex
Capital Expenditure - Standard																	
Governance and administration	20 188 221	47.5%	15 146 477	20.3%	7 460 285	7.9%	1 000 000	966 048	966 048	966 048	1.4%	1 800 000	5.2%	1 500 000	6.6%	1 500 000	6.2%
Executive and council	790 737	1.9%	1 036 335	1.4%	1 026 625	1.1%	1 000 000	224 463	224 463	224 463	0.3%	1 500 000	4.3%	1 500 000	6.6%	1 500 000	6.2%
Budget and treasury office	97 420	0.2%	44 045	0.1%	154 161	0.2%	-	47 019	47 019	47 019	0.1%	-	0.0%	-	0.0%	-	0.0%
Corporate services	19 300 064	45.4%	14 066 097	18.8%	6 279 498	6.6%	-	694 566	694 566	694 566	1.0%	300 000	0.9%	-	0.0%	-	0.0%
Community and public safety	2 604 856	6.1%	14 553 363	19.5%	10 571 023	11.1%	9 450 901	4 653 558	4 653 558	4 653 558	6.7%	16 318 256	46.7%	2 881 216	12.8%	1 073 509	4.4%
Community and social services	1 464 750	3.4%	2 585 643	3.5%	6 359	0.0%	-	542 486	542 486	542 486	0.8%	-	0.0%	-	0.0%	-	0.0%
Sport and recreation	853 025	2.0%	11 825 309	15.8%	10 544 664	11.1%	9 450 901	4 047 606	4 047 606	4 047 606	5.8%	16 318 256	46.7%	2 881 216	12.8%	1 073 509	4.4%
Public safety	287 081	0.7%	142 411	0.2%	20 000	0.0%	-	63 466	63 466	63 466	0.1%	-	0.0%	-	0.0%	-	0.0%
Economic and environmental services	8 368 839	19.7%	20 956 422	28.1%	28 374 986	29.9%	6 207 495	11 798 648	11 798 648	11 798 648	16.9%	1 724 656	4.9%	-	0.0%	-	0.0%
Planning and development	147 474	0.3%	94 419	0.1%	21 049	0.0%	-	497 827	497 827	497 827	0.7%	-	0.0%	-	0.0%	-	0.0%
Road transport	8 221 365	19.3%	20 862 004	27.9%	28 353 938	29.8%	6 207 495	11 300 821	11 300 821	11 300 821	16.2%	1 724 656	4.9%	-	0.0%	-	0.0%
Trading services	11 355 823	26.7%	24 053 998	32.2%	48 590 786	51.1%	27 020 562	52 313 709	52 313 709	52 313 709	75.0%	15 108 484	43.2%	18 184 645	80.6%	21 706 544	89.4%
Electricity	4 886 495	11.5%	21 687 625	29.0%	13 558 504	14.3%	5 428 743	8 975 220	8 975 220	8 975 220	12.9%	13 365 958	38.2%	5 958 799	26.4%	2 383 386	9.8%
Water	5 550 216	13.1%	1 800 223	2.4%	25 533 725	26.9%	15 802 082	35 169 172	35 169 172	35 169 172	50.4%	1 742 526	5.0%	5 500 000	24.4%	-	0.0%
Waste water management	501 290	1.2%	550 576	0.7%	9 498 558	10.0%	5 789 737	8 140 783	8 140 783	8 140 783	11.7%	-	0.0%	6 725 846	29.8%	19 323 158	79.6%
Waste management	417 821	1.0%	15 574	0.0%	-	0.0%	-	28 534	28 534	28 534	0.0%	-	0.0%	-	0.0%	-	0.0%
Total Capital Expenditure - Standard	42 517 739	100.0%	74 710 260	100.0%	94 997 081	100.0%	43 678 958	69 731 963	69 731 963	69 731 963	100.0%	34 951 396	100.0%	22 565 861	100.0%	24 280 053	100.0%

1.8.2 Analysis of capital expenditure

Total capital expenditure forecasted for the 2015/16 financial year amounts to R 34.9 million compared with the projected capital expenditure of R 69.7 million for the 2014/15 financial year. Capital expenditure forecasts a decrease to R 22.5 million for the 2016/17 financial year and an increase to R 24.2 million in year three.

//Khara Hais mainly spends its capital expenditure on trading services and for the 2015/16 financial year and the two outgoing financial years this category will respectively represent 43.2%, 80.6% and 89.4% of the total capital expenditure budget.

For 2015/16 the split between the standard classifications are as set out in Figure 1.5 below. Community and public safety receives 46.7% of the capital budget; trading services receives 43.2% of the capital budget; governance and administration 5.2%; economic and environmental services 4.9%; and, other services 0.0%.

Trading services is further divided between electricity infrastructure investments that receive an allocation of 38.2% of the total capital budget; water receives 5%; waste water management receives 0.0%; and, waste management receives 0.0% of the total capital budget.

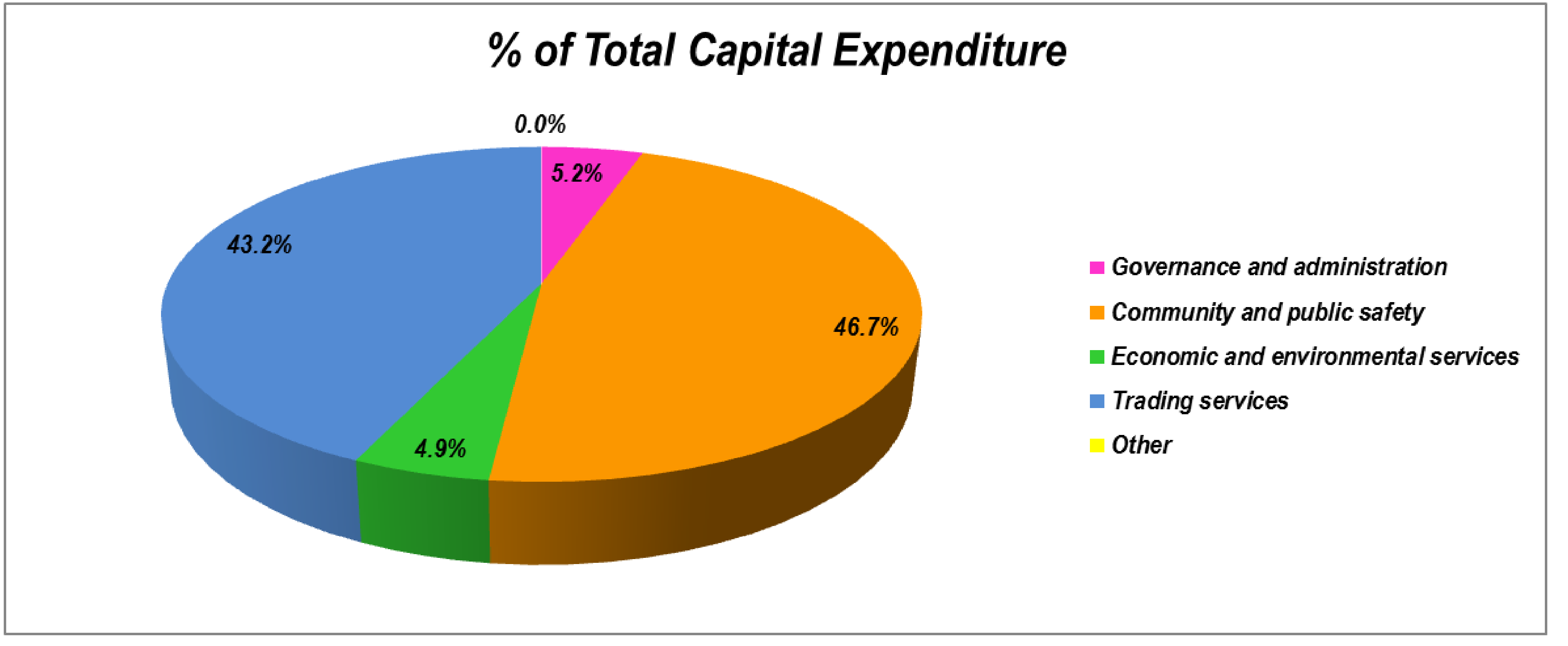


Figure 1.5: Capital Expenditure Distribution for the 2015/16 Financial Year

Capital expenditure trends over the years shown in Table 1.3 are depicted in Figure 1.6 below. The capital expenditure is clustered into the five main standard classifications. It is clear from Figure 1.6 that the majority of capital expenditure is invested in trading services infrastructure (orange colour) and that there were substantial growth in this kind of investment since 2011/12 to year three from now.

Governance and administration infrastructure investment (purple colour) has substantially decreased from 2011/12 to 2014/15 and then from 2015/16 to year three from now it more or less stays at the same level. Community and public safety infrastructure investment (green colour) substantially increased from 2011/12 to 2012/13 and then it decreases from 2013/2014 to 2014/2015. It increases again in 2015/16 but then it decreases again to year three from now. Economic and environmental services infrastructure (red colour) increased from 2011/12 to 2013/14 and decrease from 2014/15 to year three from now..

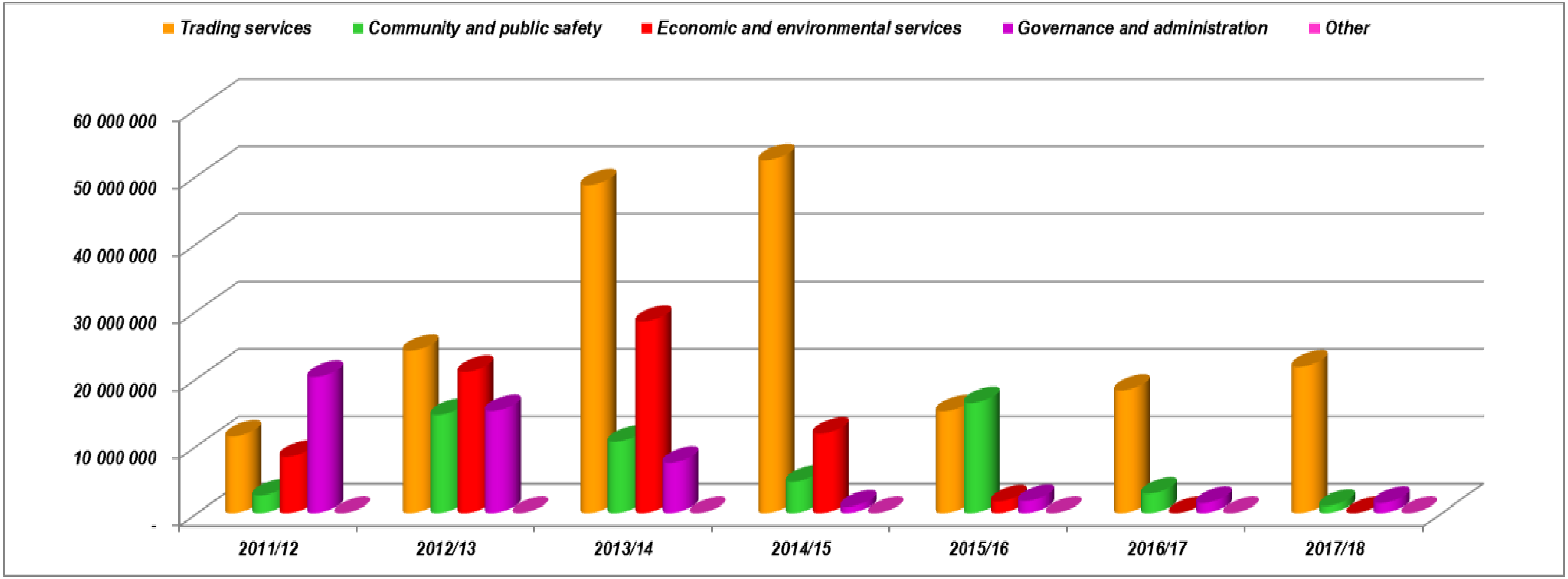


Figure 1.6: Capital Expenditure per Standard Classification

1.9 Capital Expenditure Funding

Capital expenditure is funded through own savings, grants and donations from outside stakeholders, and external borrowings. Own savings can only be generated through operating budget surpluses, but this means that //Khara Hais' customer base must pay for it through property rates and service charges

levied. Grants and donations through government programmes and private investors are another important funding source. Government programmes will usually give grants for bulk infrastructure services and internal infrastructure services where the investment in infrastructure is needed to provide basic services to the poor. Private investors will contribute levies to improve bulk services provision and to invest in basic infrastructure services for township development. External borrowing is the last source of finance to invest in infrastructure services, but these borrowings need to be repaid at a cost for //Khara Hais' customer base. A municipality can become over-borrowed and needs to guard against this not to burden their customer base in an unsustainable and non-viable manner.

The capital expenditure funding trends over the seven years under review are set out in Table 1.4 and Figure 1.7 below. The percentages highlighted in red, green and blue are the funding sources as a percentage of the total capital expenditure funding sources.

Table 1.4: Capital Expenditure Funding Sources

Description/ R	2011/12		2012/13		2013/14		Current Year 2014/15					2015/16 Medium Term Revenue & Expenditure Framework					
	Audited Outcome	% of Total Capex	Audited Outcome	% of Total Capex	Audited Outcome	% of Total Capex	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	% of Total Capex	Budget Year 2015/16	% of Total Capex	Budget Year +1 2016/17	% of Total Capex	Budget Year +2 2017/18	% of Total Capex
Funded by:																	
National Government	12 116 744	28.5%	23 342 431	31.2%	45 651 090	48.1%	21 881 930	24 685 142	24 685 142	24 685 142	35.4%	25 835 044	73.9%	20 326 361	90.1%	22 151 053	91.2%
Provincial Government	-	0.0%	176 980	0.2%	6 585 561	6.9%	626 316	14 757 537	14 757 537	14 757 537	21.2%	-	0.0%	-	0.0%	-	0.0%
Other transfers and grants	617 105	1.5%	14 358 992	19.2%	565 417	0.6%	-	34 271	34 271	34 271	0.0%	-	0.0%	-	0.0%	-	0.0%
Transfers recognised - capital	**12 733 849**	**29.9%**	**37 878 403**	**50.7%**	**52 802 068**	**55.6%**	**22 508 246**	**39 476 950**	**39 476 950**	**39 476 950**	**56.6%**	**25 835 044**	**73.9%**	**20 326 361**	**90.1%**	**22 151 053**	**91.2%**
Borrowing	26 556 400	**62.5%**	**30 072 452**	**40.3%**	**40 728 292**	**42.9%**	**20 170 712**	**-**	**-**	**-**	**0.0%**	**-**	**0.0%**	**-**	**0.0%**	**-**	**0.0%**
Internally generated funds	3 227 489	**7.6%**	**6 759 405**	**9.0%**	**1 466 721**	**1.5%**	**1 000 000**	**30 255 013**	**30 255 013**	**30 255 013**	**43.4%**	**9 116 352**	**26.1%**	**2 239 500**	**9.9%**	**2 129 000**	**8.8%**
Total Capital Funding	**42 517 739**	**100.0%**	**74 710 260**	**100.0%**	**94 997 081**	**100.0%**	**43 678 958**	**69 731 963**	**69 731 963**	**69 731 963**	**100.0%**	**34 951 396**	**100.0%**	**22 565 861**	**100.0%**	**24 280 053**	**100.0%**

In Figure 1.7 below it is clear that grants and donations (blue colour) are becoming the main source of funding of capital expenditure. It also clearly shows that own funding (green colour) is becoming the least favourite funding source and clearly indicates that own reserves have been depleted. Our draft budget is currently not funded and we are not allowed to incur external borrowing to fund capital expenditure.

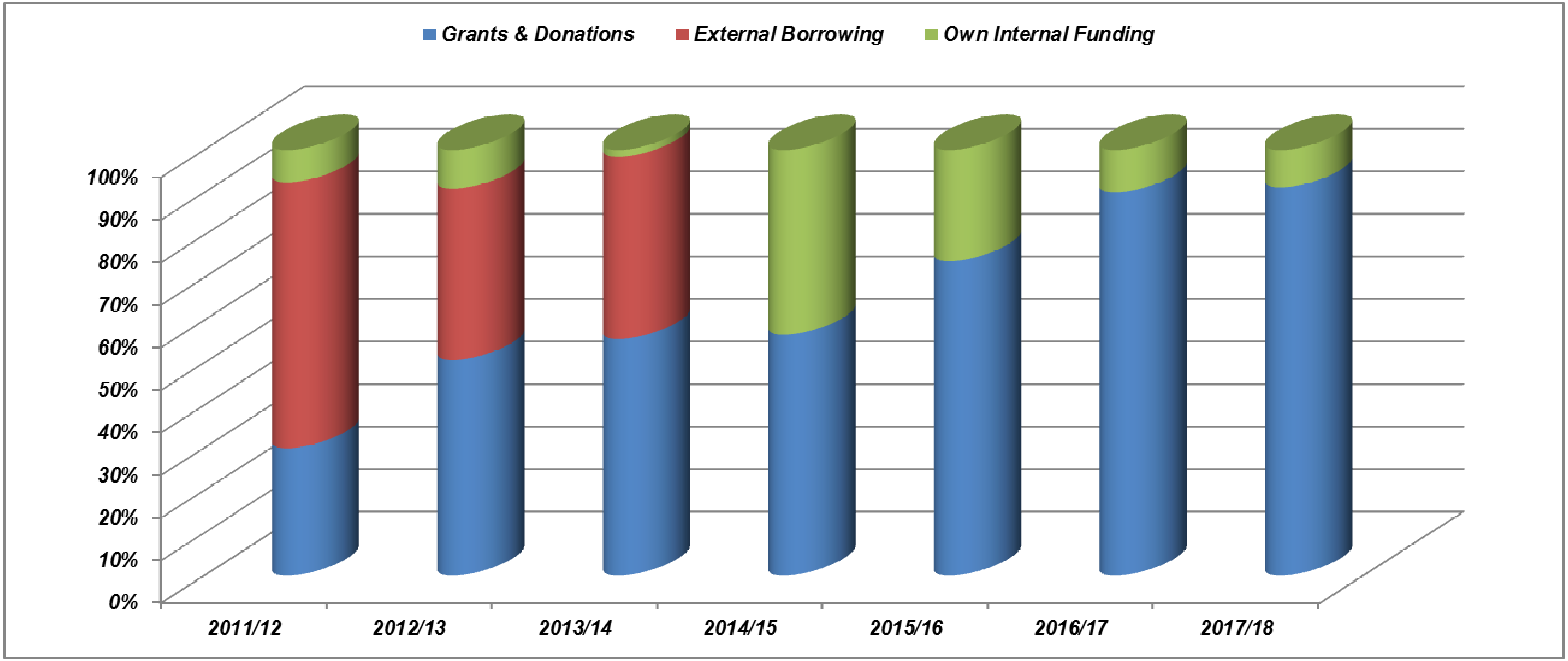


Figure 1.7: Capital Expenditure per Funding Source

External borrowing as a funding source must be capped at 40% of total operating expenditure. If not, //Khara Hais will become over-borrowed and the municipality will become a risk for borrowing agencies and this will certainly lead to higher borrowing interest rates. In Figure 1.8 below it is clearly shown that //Khara Hais has not reached its external borrowing limit yet but are however close to reaching it. The gap need to be maintained between the actual and estimated borrowing % and the 40% limit as this funding source is not a sustainable option.

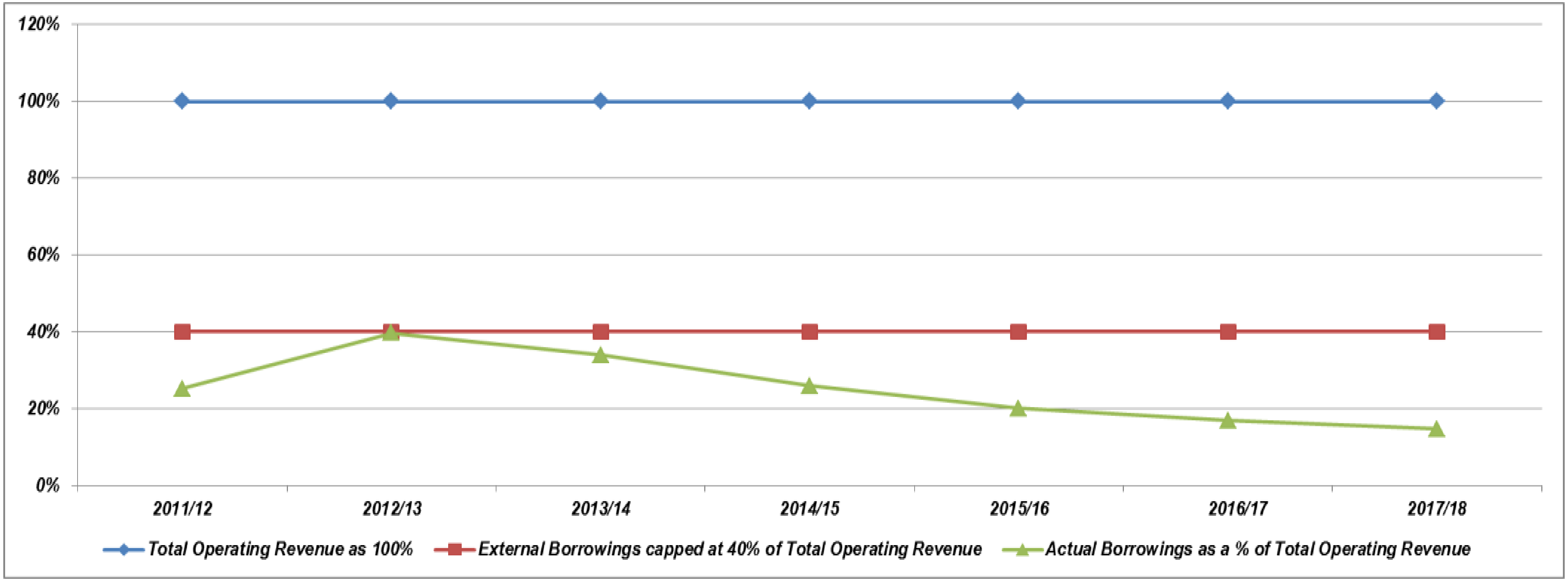


Figure 1.8: External Borrowings as a Percentage of Total Operating Revenue (excluding capital transfers and contributions)

1.10 Conclusion

The continued improvement and development of an effective financial planning process aids the actualisation of fulfilling its facilitating role to capacitate the community to build a prosperous future for all. This Financial Plan with its financial framework, financial strategies and financial policy framework contribute to ensuring that //Khara Hais remains financially viable and sustainable and that quality municipal services are provided economically to all communities within its area of jurisdiction.

The multi-year Financial Plan contains realistic and credible revenue and expenditure forecasts which should provide a sound basis for improved financial management and institutional development as well as service delivery improvements and implementation. The strategy towards cash backing and cash funded budgets will certainly ensure the sustainability of the Municipality over the short-, medium- and long-term.

Care should be taken not to become over-borrowed and to over-tax the customer base.